

KEFI Minerals

Tulu Kapi financial projections update

Expanded production confirmed

Metals & mining

2 November 2017

Price **4.38p**

Market cap **£15m**

US\$1.3271/£

Net cash (£m) at 30 June 2017 1.6

Shares in issue 332.7m

Free float 89.5%

Code KEFI

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (6.3) (13.6) (33.7)

Rel (local) (9.4) (14.3) (38.8)

52-week high/low 10.9p 4.1p

Business description

KEFI Minerals is an exploration and development company focused on gold and copper deposits in the highly prospective Arabian-Nubian Shield, principally the 95%-owned Tulu Kapi project in Ethiopia and, to a lesser extent, the 40%-owned Jibal Qutman project in Saudi Arabia.

Next events

Final project financing Q417

Community resettlement Q417

Breaking ground Q417

Analyst

Charles Gibson +44 (0)20 3077 5724

mining@edisongroup.com

[Edison profile page](#)

KEFI Minerals **KEFI Minerals is a research client of Edison Investment Research Limited**

The release of KEFI's updated financial projections for Tulu Kapi earlier this week follows the operational update in October in which it first posited a c 25% increase in ore processing capacity from 1.5-1.7Mtpa to 1.9-2.1Mtpa (depending on ore hardness), funded by an expansion of the proposed Oryx financing facility, from US\$135m to US\$140m. The detail provided in the updated projections has allowed us to firm up our forecasts and expectations relative to the indicative estimates presented in our [update note](#) of 9 October.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	0.0	(2.0)	(3.0)	0.0	N/A	N/A
12/16	0.0	(2.5)	(1.6)	0.0	N/A	N/A
12/17e	0.0	(2.9)	(0.8)	0.0	N/A	N/A
12/18e	0.0	(10.8)	(1.5)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Some costs up, some down

In general, our expectations for pit sequencing on 9 October seem almost exactly in line with those implied by KEFI's projections for expanded production (albeit with c 821kt of additional waste removal over the life of operations) and it was already known that the extra US\$12m funding requirement would be offset by capex savings combined with a US\$5m expansion of the Oryx facility. In this particular case, however, it seems likely that lease payments will increase from US\$7.4m per quarter to US\$8.2m to reflect the increased facility. In addition, it appears as if increased drill and blast intensity will add c US\$13m to operating costs over the life of operations at Tulu Kapi, to reflect the increased rate of mining. In mitigation of these, KEFI has targeted a further US\$23.2m in additional initial capex cost savings via such initiatives as managing stockpiles with a view to reducing them by 25% (saving US\$9.0m) and relying on consignment spare parts, rather than initial ones (saving US\$4.3m).

Valuation: Immediate 101% upside to the share price

Now that the higher throughput rate has been confirmed, we estimate that Tulu Kapi should be capable of generating average cash flows from operations of c £45.7m pa (cf £47.2m estimate in our note of 9 October and £44.4m previously), which we value at £209.6m (cf £218.9m on 9 October) or 28.0p per fully diluted share, attributable (cf 29.6p) at the start of production in 2020, or £70.7m currently, 15.9p per existing share, attributable (vs £59.7m and 13.5p on 9 October) using a 10% discount rate. Fully diluted on this basis at an assumed share price of 4.375p (vs 4.5p earlier in the month), our valuation is 8.79p/share (cf 8.55p on 9 October), based on the net present value of expected future dividends, discounted at 10% per annum. This valuation then increases to 15.44p in 2024 and further, to 19.19p, in the event that KEFI is successfully able to leverage its cash flow from Tulu Kapi into other development assets in the region. In the meantime, investors can buy shares in the company on a resource multiple of just US\$8.31/oz cf an estimated global average cost of discovery US\$10.16/oz.

Exhibit 1: Financial summary

	£'000s	2013	2014	2015	2016	2017e	2018e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		0	0	0	0	0	0
Cost of Sales		(927)	(2,071)	(1,634)	(2,260)	(2,692)	(2,538)
Gross Profit		(927)	(2,071)	(1,634)	(2,260)	(2,692)	(2,538)
EBITDA		(927)	(2,071)	(1,634)	(2,260)	(2,692)	(2,538)
Operating Profit (before amort. and except.)		(927)	(2,189)	(1,724)	(2,315)	(2,747)	(2,593)
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		(442)	(379)	(428)	1,944	(1,900)	0
Other		0	0	0	0	0	0
Operating Profit		(1,369)	(2,568)	(2,152)	(371)	(4,647)	(2,593)
Net Interest		4	(413)	(319)	(136)	(189)	(8,200)
Profit Before Tax (norm)		(923)	(2,602)	(2,043)	(2,451)	(2,936)	(10,793)
Profit Before Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(507)	(4,836)	(10,793)
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(923)	(2,602)	(2,043)	(2,451)	(2,936)	(10,792)
Profit After Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(507)	(4,836)	(10,793)
Average Number of Shares Outstanding (m)		29.0	56.0	92.8	194.9	378.9	545.6
EPS - normalised (p)		(7.4)	(6.2)	(3.0)	(1.6)	(0.8)	(1.5)
EPS - normalised and fully diluted (p)		(7.4)	(6.2)	(3.0)	(1.5)	(0.8)	(1.5)
EPS - (IFRS) (p)		(4.7)	(5.1)	(2.7)	(0.3)	(1.3)	(1.5)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		-	-	-	-	-	-
EBITDA Margin (%)		-	-	-	-	-	-
Operating Margin (before GW and except.) (%)		-	-	-	-	-	-
BALANCE SHEET							
Fixed Assets		7,152	9,299	11,926	14,053	17,819	75,701
Intangible Assets		6,900	9,139	11,845	13,992	15,856	15,642
Tangible Assets		252	160	81	61	1,717	59,813
Investments		0	0	0	0	246	246
Current Assets		4,014	1,061	1,012	3,561	141,853	59,440
Stocks		0	0	0	0	0	0
Debtors		655	335	358	3,056	247	247
Cash		3,279	640	562	410	141,511	59,098
Other		80	86	92	95	95	95
Current Liabilities		(3,363)	(3,202)	(1,995)	(2,067)	(2,067)	(2,067)
Creditors		(3,363)	(3,202)	(1,995)	(2,067)	(2,067)	(2,067)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		0	0	0	0	(119,810)	(105,229)
Long term borrowings		0	0	0	0	(105,493)	(90,912)
Other long term liabilities		0	0	0	0	(14,317)	(14,317)
Net Assets		7,803	7,158	10,943	15,547	37,796	27,845
CASH FLOW							
Operating Cash Flow		(1,424)	(2,006)	(2,729)	(2,211)	(1,670)	(2,538)
Net Interest		4	(413)	(319)	(136)	(189)	(8,200)
Tax		0	0	0	0	0	0
Capex		(877)	(3,133)	(3,507)	(3,014)	(4,035)	(58,150)
Acquisitions/disposals		(1,083)	(750)	0	16	0	0
Financing		4,735	3,663	6,480	5,192	27,185	1,057
Dividends		0	0	0	0	0	0
Net Cash Flow		1,355	(2,639)	(75)	(153)	21,291	(67,832)
Opening net debt/(cash)		(1,924)	(3,279)	(640)	(562)	(410)	(21,701)
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	(3)	1	0	0
Closing net debt/(cash)		(3,279)	(640)	(562)	(410)	(21,701)	46,131

Source: Company sources, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by KEFI Minerals and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.